What Type of Capitalism in Post-Communist Europe ? Poland and Ukraine Compared

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By the beginning of the 21st century, the academic discussion of post-communist 'transition' has appeared to be almost over. A considerable number of post-communist, predominantly Asian, nations have appeared to be accomplishing their transition by regression to consolidated autocracy and command economy. Hence the focus of most scholars of democratisation and marketisation has now shifted to the newly-established pluralist market regimes of Eastern Europe. Towards what type of system has this more approximate part of the post-communist world transited? What kind of capitalism has taken root in the region? How close is the emerging formation to a 'Western standard'?

Several scholarly contributions aimed at addressing some of these issues have appeared recently (see, for example, Lane 2000; Chavance and Magnin 2000; Buravoy 2001; Cernat 2002; Martin 2002; Hunter 2003). This paper will follow the ambitious research agenda formed around the question of what type of capitalism emerges in the post-communist countries by engaging into an extensive systemic comparison of Poland's and Ukraine's post-communist transformations. In order to understand the complex phenomenon of capitalism in transition this paper will apply an alternative comparative approach which draws its assumptions and explanations from two pioneering works in Western political economy by Peter A. Hall and David Soskice (2001a), and Bruno Amable (2003).

By applying the theory of institutional complementarity and the 'varieties of capitalism' approach to the research problem of capitalism in the post-communist context, this paper will propose a comparative institutional analysis of two East European political economies and examine whether the newly-emerged institutional forms of post-communist capitalism function as complementary – interdependent and mutually re-enforcing – systemic elements. Drawing on the empirical analysis of the region's two largest neighbouring political economies, I will argue that several parallel, i.e. non-converging, types of post-communist capitalism have been emerging on the continent. Both possess a large number of similarities with respect to the specific models of modern capitalism identified in the literature; yet, none is fully analogous to them.

The scope of this paper is limited to the comparative institutional analysis of the two variant capitalisms in transition. Thus, the questions as to why and how such divergent types of capitalism have been constructed in Poland and Ukraine or how post-communist capitalism has performed will not be addressed.

TOWARDS A COMPARATIVE INSTITUTIONAL ANALYSIS OF POST-COMMUNIST CAPITALISM

It has become an established tradition in post-communist studies to understand and interpret the on-going systemic changes in Eastern Europe and the former Soviet Union through various measurements of those countries' compliance with Western political requirements and economic standards set up by international financial institutions and advocacy groups. Since the early 1990s, the European Bank for Reconstruction and Development has been compiling its widelypublicised annual 'progress in transition' index which ranks twenty-seven post-communist countries on a scale of 1 to 4+, with '1' representing a standard centrally-planned economy and '4+' a standard free market economy of industrially advanced countries (e.g. EBRD 1994; 2003). Various 'freedom' and 'democratisation' indices regularly prepared by the Washington-based Freedom House (2003a; 2003b; 2004a; 2004b) provide political ratings of 'nations in transit' which measure the degree of democratic transition under post-communism from 'total repression' to 'total freedom'. The concept of multiple or combined liberalisation (i.e. simultaneous political and economic liberalisation) developed on the basis of such data-sets has laid the foundation on which the orthodox paradigm of post-communist political economy has been constructed (for example, see Dethier, Ghanem, and Zoli 1999; Bunce 1999; Havrylyshyn and Van Rooden 2000; Ekiert 2000; Dąbrowski and Gortat 2002; World Bank 2002: Part III).

Notwithstanding the apparent policy relevance and expediency of the neo-liberal political economy of post-communism for the community of international donors, economic advisors and technical assistants, its core theoretical assumptions and deduced explanations have attracted major criticisms. Some have argued that instead of examining political economies of post-communist Europe according to the degree to which they conform to, or depart from, the ideal types of Western-style capitalism, one should be concerned with variations and mutations evolving from the recombination of the inherited institutional forms with emerging new ones. Therefore, in place of *transition* (driven by hypothesised end-state), a group of critics of the neo-liberal transition paradigm have called for the study of *path-dependent transformations*, in which the introduction of new elements occurs in combination with adaptations and reconfigurations of already existing institutional norms (Stark and Bruszt 1998; see also Stark 1992; 1996; Grabher and Stark 1997; Stark and Bruszt 2001).

As David Stark and László Bruszt (1998) have maintained, one cannot grasp the contemporary post-communist world through the old dualisms of private/public, market/plan, capitalism/socialism, since after the demise of state socialism such 'method of mirrored opposition' – comparisons East-West – is no longer fruitful. They have proposed to engage in 'comparative capitalisms', i.e. into the comparative institutional analysis of 'really existing' capitalisms vis-à-vis each other to describe and account for the emergence of a distinctively East European capitalism. Yet, as these theorists of post-communist path-dependence have admitted, if a full appreciation of the distinctive character of post-communist capitalism can only be achieved through comparison to other relevant cases, how is one to undertake that comparison without already comprehending the major contours of various post-communist cases themselves? (Stark and Bruszt 1998: Introduction).

A significant consequence of the path-dependent approach lies in the sphere of methodology and new paradigm-seeking. As it has been argued elsewhere, what is currently lacking is a paradigm of post-communist capitalism developed around the concept of 'divergence', of different types of capitalism in the post-communist world (Lane 1999). The theorists of post-communist path-dependence have been the first to attempt to conceptualise this newly emerging 'composite', 'combined' or 'mixed' capitalism in transition (e.g. Chavance and Magnin 1997). However, in order to respond to the research problem posed by the path-dependence approach, one has to tackle another central issue – the problem of major contours of capitalism itself. How can one compare different East European political economies and what determining variables should one employ?

Institutional Complementarity and Hierarchy

Orthodox market economics has been long criticised for relying on distorting and oversimplifying theoretical formalisations and mathematical models (Hodgson 1988), as well as for neglecting 'the set of fundamental political, social and legal ground rules that establishes the basis for production, exchange and distribution' (Davis and North 1971). Douglass North's volume on institutions, institutional change and economic performance (1990) – with its statement of the institutional framework as a major determinant of the performance of an economy – has provided a new impetus for the study of previously neglected 'ground rules'. Generally following the rational choice logic, North defines institutions as the humanly devised constraints that shape, structure, and motivate political, economic, and social interactions; or, in other words, as the rules of the game in a society that consist of both formal institutions (constitutions, law, property rights) and informal constraints (customs, sanctions, norms, codes of behaviour, traditions) which reduce uncertainty by establishing a stable (but not necessarily efficient) structure to human interaction (1990; 1991).

Whilst generally accepting North's definition of institutions, a number of authors, however, have raised some further questions. The first issue is whether different institutions are totally autonomous or whether they function in some interdependent fashion. Masahiko Aoki (1994) has been amongst the first to argue that, similar to the concept of 'complementary goods', there can exist complementarity between the institutions of political economy. In the basic case of complementary goods, pairs of goods for which consumption is interdependent, for example, motor-cars and petrol or bacon and eggs are known as complements; and changes in the demand for one will have a complementary effect upon the demand for the other. In the case of *institutional complementarity*, according to Hall and Soskice:

> Two institutions can be said to be complementary if the presence (or efficiency) of one increases the returns from (or efficiency of) the other. Conversely, two institutions can be said to be 'substitutable' if the absence or inefficiency of one increases the returns to using the other. […] This point about institutional complementarities has special relevance for the study of comparative capitalism. It suggests that nations with a particular type of coordination in one sphere of the economy should tend to develop complementary practices in other spheres as well … If this is correct, institutional practices of various types should not be distributed randomly across nations. Instead, we should see some clustering along the dimensions that divide liberal from coordinated market economies (2001b: 17-18).

The established link between different organisational spheres of the economy has explicitly pushed for the existence of a hierarchy among various institutions. *Institutional hierarchy*, according to Amable, comes to mean that institutional design in one area depends on or takes into account constraints and incentives associated with the institutions prevailing in other areas. While the notion of complementarity links different institutions between different elements, conditioning the coherence of the whole system, the notion of hierarchy implies that one institution or a few institutions impose – in the process of socio-political bargaining – the conditions as to which complementary institutions are going to supplement the core institutions; those few institutions thus dictate the design and possibilities of other rules and determine the dynamics of the whole architecture as such (Amable 2003: Chapter 2.3).

The Institutional Core of Modern Capitalism

The question one has to put further concerns the set of complementary institutional forms – institutional arenas – which are located at the top of the institutional hierarchy. In other words, what specific institutions are considered to be decisive in influencing the performance and productive specialisation of a capitalist economy, and through which one could potentially identify the main features of post-communist capitalism? Prior to discussing the central characteristics of the emerging capitalist political economies in Poland and Ukraine, one should define the notion of capitalism. According to a sociological definition provided by Abercrombie, Hill and Turner, capitalism in its 'pure' form may be defined by (a) private ownership and control of the economic instruments of production, i.e. capital; (b) the gearing of economic activity to making profits; (c) a market framework that regulates this activity; (d) the appropriation of profits by the owners of capital (subject to taxation by the state); and (e) the provision of labour by workers who are free agents (1994: 41).

Most dictionary definitions of capitalism (also called 'free market economy' or 'free enterprise economy') usually denote a distinct form of social organisation or economic system, dominant in the Western world since the break-up of feudalism, and based on generalised commodity production, in which most of the means of production are privately owned and/or controlled, individuals are free to maximise profits, the bulk of the wage-earning workforce is engaged in employment by private (non-governmental) employers, and production is guided and income distributed largely through the operation of markets, i.e. by the price system (see Bogdanor 1987: 74-75; cf. Bannock, Baxter, and Davis 1992: 61; Robertson 1993: 49-50; Britannica 1999-2000; McLean 1996: 54).

A number of authors, however, consider the application of minimalist definitions of capitalism, such as those that equate it with private ownership of the means of production, wage labour, and economic co-ordination through free markets, or those that equate capitalism with profit maximisation under the price system, or with a combination of both, to be inadequate. Some argue that the inappropriateness of the above-mentioned definitions of capitalism lies in their disregard of capitalist money and banking as the autonomous and crucial structural specificity of capitalist development (for a critique of orthodox economic and classic Marxist theories of money, see Ingham 1999). Others emphasise that capitalism is both a multidimensional and contradictory form of social organisation and control (Dahms 2000a). Therefore, they argue, analyses of capitalism on the basis of concepts such as 'free and self-regulating market' or 'private enterprise' tend to be increasingly problematic in the light of the transformations of advanced capitalism in the twentieth century (Dahms 2000b). Most authors agree that in practice there exist some limitations on market freedoms that have reshaped the inner logic of market mechanism in all countries. Furthermore, capitalism is analysed through conflicting meanings by different social scientists (see Giddens 1971).[1] Finally, it has been argued that minimalist notions of capitalism are particularly inadequate for the study of post-communist transformations aimed at exploring the divergence of models of post-communist capitalism in Eastern Europe, since they obscure various manifestations of capitalism in modern industrialised societies. Whilst recognising these criticisms, rather than focusing on the definition of generic capitalism, I will briefly explore various institutional models of actually existing modern capitalism established in the literature.

The consideration of particular features of each major type of modern capitalism and the comparison of the Polish and Ukrainian post-communist capitalist systems with the ideal types will be conducted in the next section of the paper. Here I summarise the perception of the key arenas for the comparative institutional analysis provided in the literature. Table 1 lists major institutional domains through which the two most relevant schools of comparative political economy – the French School of Economic Regulation and the 'varieties of capitalism' approach – and their offshoots operationalise the research hypotheses. Table 1 indicates that there has been a growing consensus amongst the scholarly traditions on the top hierarchy of core institutional domains that shape both the macroeconomic performance and the comparative institutional advantage (i.e. national specialisations in scientific, technological and industrial activity) of capitalist economies. The majority of the frameworks include into their analysis such spheres as: inter-firm competition, wage and industrial relations, finance, education and training, the state and social protection.

Recently, on the basis of the analysis of strategic interactions between five institutional spheres such as industrial relations, vocational training and education, corporate governance, inter-firm competition, and intra-firm employee co-ordination arrangements, Hall and Soskice (2001a) have developed a dichotomic typology of capitalism that draws its core distinction between the two polar ideal types of Western political economies: liberal market economies and co-ordinated market economies. In summary, the 'varieties of capitalism' theorists claim that in liberal market economies, above all in the USA, firms co-ordinate their activities primarily via hierarchies and competitive market arrangements by adopting general short-term strategies, whereas in co-ordinated market economies, particularly in Germany, firms rely more heavily on non-market horizontal co-operative relationships to harmonise their endeavours with other actors and to build their specific core competences in the long term (Hall and Soskice 2001b: 21-33). While the broader line of analysis of the 'varieties of capitalism' approach has gained a major acceptance amongst political economists, the central criticism has been focused on the approach's binary classification of the capitalist economies (between liberal and co-ordinated). Vivien Schmidt (2002), for instance, has analysed business relations, labour relations, and government relations in several major political economies of the West. As a result, she has identified three ideal-typical models of capitalism: market capitalism (exemplified by Great Britain and the United States), managed capitalism (Germany, the Netherlands, Sweden), and state capitalism (France and Italy). While developing a framework of 'discursive institutionalism' and focusing on policies, practices, and politics of the adjustment to the challenges of globalisation and Europeanisation pursued by the United Kingdom, France, and Germany since the late 1970s, Schmidt argued that even by 2000 the West European capitalism did not converge and remained distinguishable according to its three main varieties.

[1] According to an alternative sociological definition: 'capitalism, as a type of political economy, is a system of production taking place for market exchange utilising money as a medium which determines differentials of income, levels of investment and the distribution of goods and services; productive assets are privately (collectively or individually) owned, and profit leading to accumulation is a major motive of economic life. The state, which is embedded in a more or less pluralistic society, established an effective system of law which secures private property and rights of owners over the proceeds of production. A major legitimating theory is that of democracy, or polyarchy, which entails competition between parties and groups for influence over the legislature and executive arm of government' (Lane 2000: 486).

Table 1. - *Key institutional variables in the comparative political economy of capitalism*

Conceptual frameworks	*Major arenas for the comparative institutional analysis of political economies*					
The Regulation School (Aglietta 1979, 1998; Boyer 1988; Jessop 1990)	The wage-labour nexus	Competition between firms	International relations	Monetary arrangements	The state	_
Social Systems of Innovation and Production (Amable, Barré & Boyer 1997; Hollingsworth & Boyer 1997)	Science	Technology	Industry	Education and training	Labour markets	Finance
'Varieties of Capitalism' (Hall and Soskice 2001a)	Industrial relations	Vocational training and education	Corporate governance	Inter-firm relations	Internal (employee) coordination	_
Discursive Institutionalism (Schmidt 2002)	Inter-firm relations	Industry-finance	Investment	Government relations	Wage bargaining	State's role in labour relations
The Diversity of Capitalism (Amable 2003)	Product-markets	Labour market	Financial system	Social protection	Education system	_

Furthermore, according to other critics, Hall's and Soskice's approach consider countries which neither belong to liberal market economies nor can be clearly identified with co-ordinated market economies – the 'intermediate cases' – to be deficient. However, not all the intermediate cases have actually been characterised by poorer performance or lower-value comparative institutional advantage (for this line of criticism, see Amable 2003: 79-85).

Amable (2003) has critically incorporated the 'varieties of capitalism' approach into his cross-national analysis of modern capitalist economies and developed a new typology of modern capitalism. His 'diversity of capitalism' classification is based on the differences of main institutional forms and different institutional complementarities which are developed among them in five broad spheres: the character of competition in product markets, the wage-labour nexus and labour-market institutions, the sector of financial intermediation and corporate governance, the social protection system, and the education sector. A major finding of Amable's research is that there are more than two or three types of capitalism and that each of these types is characterised by specific institutional complementarities. As the result of an extensive large-scale comparative analysis of twenty one key capitalist economies (the core OECD member states), Amable has identified five different models of modern capitalism: the market-based Anglo-Saxon model, Asian capitalism, the Continental European model, the social-democratic Scandinavian model, and the South European (Mediterranean) model.

The joint conclusion of the theorists working on the 'varieties of capitalism' theme has been that the alleged total superiority of market-based economies needs to be qualified. Institutional variables have a significant effect when interacting with each other and should be analysed in this intricate way. As Amable has argued: 'There does not seem to be a clear growth advantage unconditionally attached to the specific features of the market-based model. Regulated markets and centralized financial systems can deliver good growth performance too' (2003: 218).

WHAT TYPE OF CAPITALISM IN POLAND AND UKRAINE?

This paper adopts Amable's theoretical model. It is believed that the 'diversity of capitalism' framework provides the broadest available typology of modern capitalism, which can be particularly advantageous for this paper's analysis of post-communist social formations. Thus, to discover the contours of actually existing East European capitalisms, my investigation will be concentrated on the following elements of the Polish and Ukrainian political economies: product-market competition, the labour market, the financial system, the social protection sector, and the education system. For the comparative analysis of post-communist capitalism in Poland and Ukraine, I follow the established methodology based on the extensive data-base compiled by the OECD research staff in the late 1990s – early 2000s. The missing institutional indicators for Poland and Ukraine presented in this section are my own calculations and scores, constructed from primary sources and national data using the respective OECD techniques. The institutional features of the two post-communist political economies will be compared vis-à-vis each other as well as contrasted with the countries that are found to be the most representative of five different ideal types of modern capitalism, namely the market-based model, the social-democratic model, Asian capitalism, the Continental European model, and the Mediterranean model (for the full list of representative countries, see Amable 2003: Chapter 5).

Product-Market Competition

The nature, form, and intensity of competition between firms in the markets of goods and services are determined by public regulation, i.e. specific institutional settings defined by the state to govern product markets. This is the first fundamental institutional domain that is believed to differentiate existing models of capitalism. Nicoletti, Scarpetta and Boylaud (2000) of the OECD have collected and formatted a database of internationally comparable data on certain economy-wide and industry-specific regulations; and provided a multi-stage estimation of indicators of regulation that summarise (at different level of detail) the extensive information on the regulatory environments characterising OECD member-states. Overall, they have constructed seventeen detailed indicators of regulation to describe the regulatory environment in the product market. The detailed indicators were classified in the following three broad regulatory domains: (a) state control over business enterprises, (b) barriers to entrepreneurship, and (c) explicit barriers to international trade and investment.[1] Without entering into further details, one has to mention that according to the ideal type classification of modern capitalism proposed by Bruno Amable, in the sphere of product-market competition, market-based economies are characterised by the high importance of price competition and the non-involvement of the state in product markets. Economic agents in the Anglo-Saxon model are co-ordinated through market (price) signals, whilst product-markets are open to foreign competition and investment. Social-democratic economies are characterised by the high importance of quality competition, the strong role of the state in product markets, and the high degree of co-ordination through channels other than market signals. Product markets in the social-democratic model are open to foreign competition and investment. Asian capitalism is characterised by the importance of both price and quality competition, the high involvement of the state, the great degree of non-price co-ordination, and the high level of protection against foreign firms and investment. The role of large corporations in Asian capitalism is particularly essential. Continental European capitalism is characterised by the moderate

[1] In particular, the domain of *state control over business enterprises* includes detailed indicators of public ownership and the state involvement in business operation such as: (a) the scope of the public enterprise sector (in 24 manufacturing and service industries); (b) the size of the public enterprise sector (in 24 economic branches); (c) the existence and extent of special rights over business enterprises; (d) legislative control over public enterprises; (e) the existence of price controls in competitive industries; and (f) the use of command and control regulations, both economy-wide and at the industry level. *Barriers to entrepreneurship* cover detailed indicators with regard to regulatory and administrative opacity, administrative burdens on start-ups, and barriers to competition such as: (a) the features of the licensing and permit system; (b) the communication and simplification of rules and procedures; (c) economy-wide administrative burdens on start-ups of corporate firms; (d) economy-wide administrative burdens on the start-up of sole-proprietor firms; (e) industry-specific administrative burdens on start-ups in retail distribution and road freight companies; (f) the scope of legal barriers to entry (in 24 manufacturing and service industries); and (g) the existence of antitrust exemptions for public enterprises or government-mandated behaviour. Finally, *explicit barriers to international trade and investment* are focused on outward-oriented policies such as: (a) barriers to share-ownership for non-resident operators (economy-wide and in the telecommunications and air travel industries); (b) discriminatory procedures in international trade and competition policies; (c) regulatory barriers to trade; and (d) average (production-weighted) tariffs (for a full description of the product-markets regulation analytical methodology used in this paper, see Nicoletti *et al*. 2000).

importance of price competition and relatively high importance of quality competition. Public authorities are involved in regulating product markets and the degree of non-price co-ordination of economic agents is relatively strong. Domestic product markets in Continental European economies are moderately protected against foreign firms and investment. In the Mediterranean model, product-market competition is characterised by price- rather than quality competition, the involvement of the state, little non-price co-ordination, and moderate protection against foreign trade or investment. Product markets in South European economies are dominated by small firms (Amable 2003: Chapter 3.4).

Table 2. - A synopsis of summary indicators of product market regulation by domain, point estimates, late 1990s – early 2000s

	Summary indicators			
	Overall indicator	Domains		
	Product market regulation	State control	Barriers to entrepreneurship	Barriers to trade and investment
UK	0.5	0.6	0.5	0.4
Denmark	1.4	2.5	1.3	0.5
Belgium	1.9	2.8	2.6	0.6
Italy	2.3	3.9	2.7	0.5
Korea	2.4	2.3	3.1	1.7
Poland	3.3	4.2	1.8	3.7
Ukraine	1.9	3.0	1.6	1.1

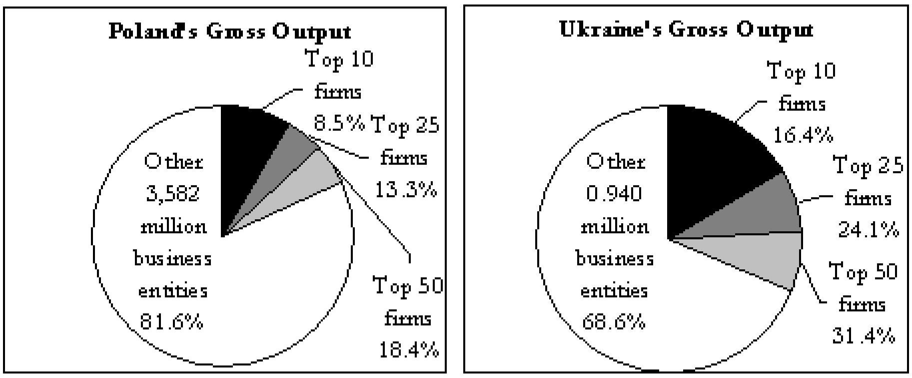
Note: The comparative scale range is 0 – 6 (from least to most restrictive product-market regulation).

Source: Nicoletti, Scarpetta, and Boylaud (2000); VRU (1991a, 1991b, 1992, 1996, 2000a, 2000b, 2003b); USSC (2003); CMU (2004a, 2004b); World Bank (2004b, 2005), and author's own calculations and scores on the basis of the methodology of Nicoletti *et al.*

On the basis of factor analysis matrices and other techniques developed by Nicoletti *et al.* (2000), and using the relevant Ukrainian regulatory policy documents and other legislation (e.g. the Commercial Code, the Law on Enterprises, etc.), I have compiled a number of detailed and summary indicators of product-market regulation in Ukraine and made the necessary comparative scores. Table 2 presents the summary indicators of the product-market regulatory framework in the three main fields of state control, barriers to entrepreneurship, and barriers to trade and investment for Ukraine and Poland, as well as for five countries that are believed to be representative of modern capitalism's models, in particular, the United Kingdom (market-based capitalism), Denmark (social-democratic capitalism), South Korea (Asian capitalism), Belgium (Continental European capitalism), and Italy (Mediterranean capitalism).

Table 2 shows that Polish capitalism is characterised by heavily regulated product markets, extensive government involvement in the economy, the large scope of the public sector, the high level of co-ordination of economic agents through non-market signals, the moderate level of administrative burdens for entrepreneurship, and intense protectionism. Table 2 indicates that, on average, the very high degree of product-markets regulation in Poland appears to be rather unparalleled. It may approximate the most heavily regulated Mediterranean and Asian-capitalism clusters: Poland's product-markets regulatory framework is close to the former (see Italy) with regard to the level of state control and barriers to entrepreneurship, and to the latter (see South Korea) in the field of outward-oriented protectionist policies. Yet, as Table 2 illustrates, the overall Polish product market regulation indicator clearly stands out against the background set by the representative countries of modern capitalism. In turn, Ukrainian capitalism is characterised by competitive to mildly regulated product markets; the involvement of the state is high; the protection of the domestic product markets is moderate; and the administrative burdens and barriers to entrepreneurship are relatively low. On average, the Ukrainian product-markets regulatory framework is analogous to the Continental European model cluster as exemplified by Belgium. With regard to more specific features of the product-market structure of the Polish and Ukrainian economies, it appears that the former shares one of the most distinctive characteristics of the Mediterranean model, as the Polish economy in transition has been dominated by small firms and single proprietorships. Figure 1 demonstrates that the Polish output structure appears to be much more dispersed between small firms and sole traders, whilst the fifty largest companies have produced less than one-fifth of the national gross output. By contrast, Figure 1 shows that big business is the most powerful economic centre in Ukraine. In 2003, Ukraine's ten largest companies produced over 16 per cent of the gross national output (i.e. the sum of gross value added and intermediate consumption), whilst the top fifty firms covered almost one-third of the gross output. The difference in the level of economic significance between Ukrainian and Polish business entities is even more visible in employment patterns. Overall, in 2003, an average registered business entity employed only 3.8 people in Poland, whilst the corresponding figure in Ukraine stood at 21.7 (author's calculations on the basis of PSCO 2005b, 2005c; USSC 2004d; 2005c).

Figure 1. - *Gross domestic output by firm size, Poland and Ukraine, 2003*



Source: Author's calculations on the basis of *Rzeczpospolita* (2004); *Investgazeta* (2004); PSCO (2005a; 2005b); USSC (2004d; 2005a).

Thus, if one applies the dichotomic 'varieties of capitalism' approach of Hall and Soskice (2001a) to our comparative case, Ukraine (or rather its formal product-market regulation) would fit generally into the co-ordinated market capitalism model. In turn, Poland would appear to be amongst the most extreme present cases of non-market relationships of economic co-ordination. Considering the structure of the product markets in Poland and Ukraine in Amable's 'five models of modern capitalism' terms, it appears that the former shows one of Mediterranean capitalism's typical features, i.e. the importance of small firms and single proprietorships. Nonetheless, the degree of state control and the level of formal barriers to trade and investment in Poland have been at a much higher level than that of South European countries, leaving this heavily regulated post-communist political economy distinct from the rest of actually existing types of modern capitalism. On the other hand, the Ukrainian economy is characterised by the moderate level of product-market regulation and the great importance of large corporations. These features of product-markets regulation in Ukraine as well as the extent of the country's employment concentration indicate a close proximity to the corporate Continental European model of modern capitalism.

The Wage-Labour Nexus and Labour Market Institutions

The second institutional arena that I examine is concerned with the industrial and employment relations, as well as with capital, labour, and state institutions, which govern these relations. We begin with listing the general characteristics of industrial and labour relations which are believed to characterise the ideal types of modern capitalism. According to Amable's 'diversity of capitalism' approach, the market-based model is differentiated by weak employment protection and extensive labour flexibility: easy recourse to temporary work and easy hire and fire. In Anglo-Saxon economies there is no active employment policy, wage-bargaining is decentralised, whilst trade-unions pursue defensive strategies. The social-democratic model is characterised by moderate employment protection, co-ordinated or centralised wage bargaining, active employment policy, strong labour unions, and co-operative industrial relations. In the Asian capitalist economies employment protection is provided within the large corporation. This model's major features include limited external labour flexibility, labour-market dualism, seniority-based wage policy, accommodating industrial relations, and strong firms' unions. There is no active employment policy, and wage bargaining is decentralised. The Continental European model is characterised by high employment protection, limited external labour flexibility, conflicting industrial relations, active employment policy, moderately strong unions, and the co-ordination of wage bargaining. Industrial relations in South European economies are said to be characterised by high employment protection within large firms but also by labour-market dualism (i.e. a 'flexible' fringe of employment in temporary and part-time work). The industrial relations are potentially contentious. There is no active employment policy, but wage bargaining is centralised (Amable 2003: Chapter 3.4).

Table 3. - *A synopsis of summary indicators of employment protection legislation by domain, point estimates, late 1990s – early 2000s*

	Summary indicators		
	Overall indicator	Domains	
	Employment protection legislation	EPL Regular contracts	EPL Temporary contracts
UK	0.5	0.7	0.3
Finland	2.1	2.3	1.9
Austria	2.4	2.8	2.0
Japan	2.6	3.0	2.3
Portugal	3.7	4.3	3.2
Poland	1.9	2.3	1.4
Ukraine	2.5	3.4	1.6

Note: The comparative scale range is 0 – 6 (from least to most restrictive labour market regulation).
Source: VRU (1971); *Halyts'ki Kontrakty* (1998); Nicoletti, Scarpetta, and Boylaud (2000); OECD (2004c); World Bank (2004b, 2005); and author's own calculations and scores on the basis of the methodology of Nicoletti *et al*

First, to assess and compare the differences in labour market institutions in the two post-communist countries with the advanced capitalist economies, I use an OECD-developed comprehensive technique to analyse the employment protection legislation – the first specific aspect of labour market regulations. Nicoletti *et al.* (2000) have compiled and reviewed fifteen detailed indicators of the strictness of employment protection legislation, which they have grouped into two broad domains, one referring to provisions for workers with regular contracts and the other referring to provisions affecting workers with fixed-term or contracts with the temporary work agencies.[1] Table 3 presents the

[1] The regulations examined on permanent employment cover: (a) *procedural requirements* that refer to the process that has to be followed from the decision to lay off a worker to the actual termination of the contract; (b) *notice and severance pay* that refers to three tenure periods (the tenure periods are nine months, four years, and twenty years) beyond any trial period, dismissed on grounds of poor performance or individual dismissal, without fault; and (c) *prevailing standards of and penalties for 'unfair' dismissals* that include the conditions that identify an unfair dismissal, when employers cannot demonstrate appropriate efforts to avoid the dismissal, or when social, age or job tenure have not been considered; it also includes the length of the trial period and account is taken of the fact that, in some cases, labour courts may require employers to reinstate a worker affected by an unfair dismissal, or award high compensation payments in excess of regular severance pay. Indicators on the stringency of employment protection legislation for temporary and part-time contracts focus on regulations for fixed-term contracts and for contracts under temporary work agencies, including the following elements: (a)

results of the factor analysis for regulation effecting regular and temporary contracts in Poland, Ukraine, and five representative countries of major models of modern capitalism. It shows that, in general, Poland's political economy is characterised by a very moderate level of employment protection, firmly below the social-democratic model's average (cf. Finland). Ukraine, on the other hand, appears to have a much less flexible labour-market regulation, close to the level of employment protection attributed to the Continental European model (cf. Austria).

The second specific aspect of the wage-labour nexus is the nature of industrial relations. The major variables considered here concern (a) wage-bargaining co-ordination (e.g. inter-organisational co-ordination through national agreements; intra-organisational co-ordination by trade unions, by employers' federations; or through pattern bargaining); (b) centralisation and corporatism (national, industry, or company, weighted levels of wage-bargaining), (c) the role of governments in bargaining (direct intervention, statutory minimum wage), (d) trade union density, (e) industrial disputes, and (f) practices of national social dialogue and relations between managers and employees evaluated through the collective agreement coverage.

Table 4 presents a synopsis of major industrial relations indicators for Poland, Ukraine, and five advanced capitalist countries: the United Kingdom, Finland, South Korea, Austria, and Spain. It appears that the major features of the Polish industrial relations are decentralised wage-bargaining, the low level of co-ordination, extremely sparse labour unionisation, and narrow collective agreement coverage. Relations between managers and employers in Poland are non-confrontational, as the small number of strikes indicates. Generally, the limited co-ordination and centralisation of wage bargaining in Poland resemble very closely the decentralised flexible labour markets of liberal market-based economies (cf. Great Britain). By contrast, Ukraine's industrial relations are characterised by the moderate degree of wage-bargaining centralisation, extensive co-ordination, the very high level of trade union density, and very broad collective agreement coverage. As regards the degree of wage-bargaining centralisation and co-ordination, Ukraine's industrial relations have clearly become neo-corporatist and the country's wage-labour nexus approximates the Continental European model (cf. Austria). On the other hand, Table 4 shows that the Ukrainian pattern of capital-labour relations may approximate the social-democratic model (cf. Finland), as indicated by moderately confrontational relations between managers and employers in the country as well as by Ukraine's much higher trade-union density in comparison with the Continental model exemplified by Austria.

The third aspect of the wage-labour nexus and labour-market regulation examined here is employment policy. By focusing on the scope of employment and wage policies, one can show to what extent national governments are committed to intervening in labour markets and to what extent the current type of industrial relations and wage-bargaining is working and effective. Since the second half of the 1990s, the return of the Ukrainian state to the labour market has been one of the most important changes from the previously chaotic transition period. The transformation of labour-capital relations has been amongst several profound developments in employment policy in Ukraine in this regard. The first half of the 1990s was characterised by an increasingly high degree of wage inequality. The wage differential had then widened in both countries, although Poland witnessed a relatively smaller increase. Since the mid-1990s, however, the development of neo-corporatist arrangements in Ukraine has resulted in a reversal in the process of wage differentiation. Figure 2 demonstrates that, despite different labour market arrangements, the level of wage inequality in both Poland and Ukraine has increased dramatically under post-communism. When evaluated between different industries, the wage differentiation within Ukraine's manufacturing sector has stabilised at a currently lower level than that registered in Poland or Spain. By contrast, Poland has been experiencing a gradual and continuous rise in the overall wage differentiation since the very beginning of transformation. By 2003, the degree of wage inequality in Poland well over passed that of the market-based and Asian models (cf. USA and South Korea). Whereas the wage differentiation trend in the Ukraine has been downwards, Poland appears to be approaching the level of wage inequality associated with the Mediterranean capitalism.

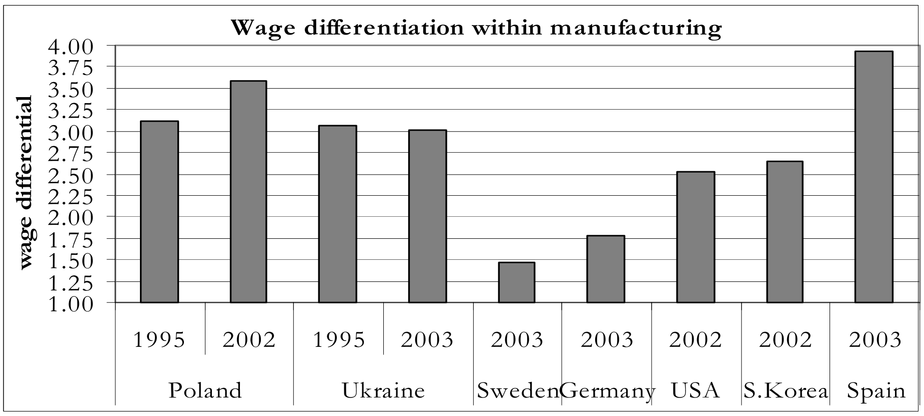
'objective' reasons under which a fixed-term or temporary contract could be offered; (b) the maximum number of successive renewals; and (c) the maximum cumulated duration of the contract (for a full description of the labour market regulation analysis technique used, see Nicoletti *at al*. 2000).

Table 4. - *Summary indicators of industrial relations, point estimates, late 1990s - early 2000s*

		KOR	GBR	SPA	AUT	FIN	POL	UKR
Levels of bargaining	Inter-sectoral				x	xxx		x
	Sectoral	x	x	xx	xxx	x	x	xx
	Company	xxxx	xxxx	xxx	x	x	xxxx	xx
Coordination	National agreement				1	2		1
	Intra: unions			1	1	1		1
	Intra: employers			1	1	1		1
	Pattern bargaining				2	1		2
Government role	Pay indexation mechanism							
	Statutory minimum wage		1	1				
Capital-labour relations	Union density, %	11.4	31.2	14.9	36.5	76.2	14.7	73.0
	Industrial disputes,	97.4	24.0	182.6	1.2	40.8	4.7	28.4
	Direct collective bargaining coverage, %	12.5	32.5	82.5	96.0	92.5	42.5	80.3

Notes: Levels of bargaining: maximum score is 5 ('xxxxx') divided over three levels. Co-ordination mechanisms:'2' is major / strong; '1' is minor / weak. Else: absent. Industrial disputes are evaluated as the average number of days lost to strikes per 1000 salaried employees in the last five years for which data are available (principally 1999-2003).
Source: Authors calculations and scores on the basis of VRU (1971); Elmeskov, Martin, and Scarpetta (1998); *Halyts'ki Kontrakty* (1998); Visser (2000); Carley (2002); OECD (2002a, 2004c); USSC (2003); ILO (2005); ITUFR (2000); MLSPU (2004a, 2004b, 2004c); Seniv (2004).

Figure 2. - *Wage differentiation within the manufacturing sector, Poland and Ukraine, international comparison, 2002-2003, wage level of the highest paid industry v. the lowest paid industry (= 1.00)*



Note: Wage differential figures are based on the data for different industries which have been arranged according to the International Standard Industrial Classification of All Economic Activities (ISIC Revision 3), or its former version, ISIC Revision 2, 1968.
Source: Author's calculations on the basis of PSCO (2005c); USSC (2005d); ILO (2005).

As regards state intervention in labour markets, I examine public expenditure on labour markets programmes which is usually analysed through active and passive measures. Active labour market measures involve spending on public employment services and administration, labour market training, youth measures, subsidised employment, and measures for the disabled. Passive labour market intervention activities cover unemployment compensation and support for early retirement for labour market reasons.

Table 5.- *Public expenditure on labour market programmes, as percentage of GDP, 1999-2001, period average*

	Korea	UK	Italy	Germany	Denmark	Poland	Ukraine
Active measures	0.50	0.35	0.59	1.25	1.67	0.33	1.01
Passive measures	0.15	0.66	0.69	1.98	3.18	0.76	1.58
Total	**0.64**	**1.01**	**1.28**	**3.24**	**4.85**	**1.09**	**2.59**

Source: Author's calculations on the basis of OECD (2002a); VRU (2002, 2003a); CMU (2003); IMF (2003).

Table 5 summarises the data concerning public expenditure on active and passive labour market programmes in five representative capitalist countries as well as in Poland and Ukraine. It shows that the extent of state intervention into Poland's labour markets in the late 1990s – early 2000s has been low and close to market-based model countries (cf. Great Britain). There are no direct comparative data available on the amount of public spending on labour market programmes in Ukraine. I have assessed the level of Ukraine's state intervention as the sum of direct state budgetary allocations for active labour market measures and the average annual expenditures by Ukraine's three public labour market-related financial institutions: the Temporary Employment Disability Social Insurance Fund, the State Obligatory Unemployment Social Insurance Fund, and the Job Accident and Occupational Disease Social Insurance Fund. The figure obtained suggests a relatively high level of public intervention in Ukraine's labour markets. Table 5 shows that the Ukrainian indicator is somewhat atypical. It is relatively close to the Continental European model's level of public intervention in labour markets (cf. Germany) and evidently higher than in all other types of modern capitalism, except for the social-democratic model as exemplified by Denmark. Since 2001, the Ukrainian government has been gradually increasing the annual budgetary allocations envisaged for active labour market measures which have significantly boosted public spending on government employment policy measures from the level shown in Table 5 (see *Uriadovyi Kur'er*, 17 April 2002).

Thus, the wage-labour nexus and labour market institutions in Poland have been characterised by the moderate level of employment protection, decentralised and un-coordinated wage-bargaining, low trade union density, narrow collective agreement coverage, defensive union strategies, a low degree of state intervention in labour markets, and very high wage flexibility. The overwhelming majority of these features, except for employment protection, indicate a gradual shift of the Polish post-communist political economy towards the market-based model of the wage-labour nexus. By contrast, Ukraine has reversed the shift from labour-market flexibility. Since the late 1990s, the wage-labour nexus in Ukraine has been increasingly characterised by a large number of neo-corporatist features such as moderate employment protection, highly centralized and co-ordinated wage-bargaining, relatively strong trade unions, more co-operative industrial relations, and the initiation of active employment policies. Most of these formal characteristics are usually associated with the social-democratic as well as Continental European models of capitalism.

The Financial-Intermediation and Corporate Governance Sector

Capital and corporate governance markets represent the third distinctive institutional domain of modern capitalism. The financial system in market-based Anglo-Saxon type economies is characterised by the high degree of minority shareholders' protection, low ownership concentration, the importance of institutional investors, an active market for corporate control (i.e. take-overs, mergers and acquisitions), the high sophistication of financial markets, and the development of venture capital. The social-democratic Scandinavian model is usually characterised by the high share of institutional investors, the great importance of stakeholders (suppliers, employees), high ownership concentration, the absence of the market for corporate control, no sophistication of financial markets, and the high degree of banking concentration. Major features of the financial-intermediation sector in the Asian model of capitalism include the low level of protection of external shareholders, high ownership concentration, the great involvement of banks in corporate governance, no active market for corporate control, no sophistication of financial markets, the limited development of venture capital, and the high degree of banking concentration. The Continental European model is typically characterised by the low degree of protection of external shareholders, high ownership concentration, no active market for corporate control, low sophistication of financial markets, the moderate development of venture capital, high banking concentration, and the importance of banks in firms' investment funding. In the Mediterranean model, the basic features of the sector include the low protection of external shareholders, high ownership concentration, bank-based corporate governance, no active market for corporate control, the low sophistication of financial markets, the limited development of venture capital, and high banking concentration (Amable 2003: Chapter 3.4).

Finance

In Table 6 below I have summarised a number of fundamental indicators (for South Korea, Great Britain, Portugal, Germany, Denmark, Poland and Ukraine) that are typically used to evaluate the sector of financial intermediation. The level of development of the financial system is assessed through the overall size of the capital market as the sum of domestic assets of commercial banks and stock market capitalisation to GDP. The type of the financial system (i.e. bank-based v. stock-market-based) is evaluated as the ratio of the assets of deposit money banks to stock-market capitalisation. The overall level of development of commercial banks is analysed as the amount of private deposit money bank credit granted as a percentage of GDP. The importance of institutional investors (i.e. pension funds, insurance companies, investment funds, etc.) is assessed as the total amount of their financial assets to GDP. Correspondingly, the development of the stock-markets is evaluated as the overall capitalisation as a percentage of GDP. The sophistication of the financial system is analysed through the level of development of venture capital and insurance. The degree of banking concentration is evaluated as the share of the assets of the three largest deposit money banks in the total assets of the commercial banking sector. The degree of foreign bank penetration is analysed as the share of the assets of all foreign-owned banks in the total deposit money banks' assets. The importance of the state in the financial system and the degree of state intervention in the capital market are evaluated as the amount of central bank assets to GDP and degree of public bond market capitalisation.

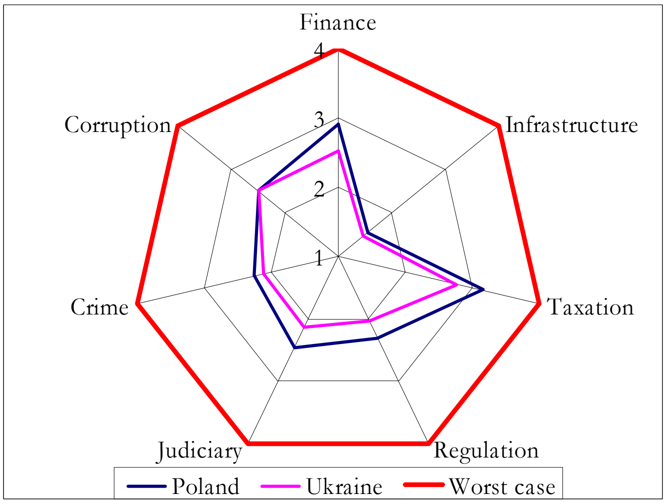
The data presented in Table 6 clearly indicate that the financial systems of both Poland and Ukraine are greatly underdeveloped and do not resemble any of the currently existing arch-types. Although the Polish capital market appears to be slightly bigger than the Ukrainian one, the overall size of the financial sector is very small in both countries. The financial systems in both countries are bank-based, which strongly differentiate them from the market-based model of capitalism. However, since both commercial banks as well as stock markets in the two countries are very weak, it is not possible at this stage to identify what strategic direction the systems of financial intermediation in Poland and Ukraine will follow. The capital markets are rudimentary and institutional investors are almost non-existent. Although venture-capital investment in Poland appears to be relatively developed, insurance penetration is lower than in Portugal, a country with the weakest financial system in Western Europe. The major differences between the Polish and Ukrainian financial-intermediation sectors have been in the role of the state and in banking ownership and concentration. The role of the central bank in Ukraine is much more important than in any other country on the list: the size of Ukraine's central bank is half the size of all commercial banks. Correspondingly, the Ukrainian government appears to be a much more active player on the financial markets. On the other hand, commercial banking is concentrated and domestically owned. By contrast, commercial banking in Poland is rather dispersed and almost totally controlled by large multinational banking corporations. In general, the financial system in both of the post-communist countries appears to be much more underdeveloped and weak than even that attributed to the Mediterranean model of capitalism. According to the majority of indicators presented in Table 6, the financial-intermediation sectors of Poland and Ukraine are analogous to the developing world's average (upper-middle- and lower-middle-income group averages respectively) (author's assessment on the basis of Beck, Demirgüç-Kunt and Levine 1999-2002).

Table 6. - *Major indicators of the financial-intermediation sector, 1999-2001*

	KOR	GBR	PTL	GER	DNK	POL	UKR
Overall size (domestic assets of deposit money banks + market capitalisation), % GDP	136.3	275	92.9	130.8	204.3	49.0	37.0
Banks v. stock markets (deposit money bank assets/market capitalisation)	2.21	0.92	1.23	1.41	2.81	2.38	2.05
Private credit, % GDP	89.5	132.4	138.4	120.3	138.5	27	13.7
Financial assets of institutional investors, % GDP	73	190.9	51.9	81	103.2	9.6	1.7
Stock-market capitalisation, % GDP	42	144	41	54	53	14.5	12.1
Venture-capital investment, % GDP	0.164	0.851	0.117	0.159	0.071	0.121	…
Life insurance penetration, premium volume, % GDP	0.085	0.106	0.027	0.030	0.045	0.010	0.005
Banking concentration, three largest banks' assets to all commercial bank assets, %	31.2	26.9	52.5	48.1	69.6	36.9	54.1
Foreign bank ownership, % total bank assets	-	-	6.0	4.0	0.0	75.0	11.0
Central bank assets, % GDP	1.4	0.7	0.3	1.1	1.3	2.5	13.6
Public bond market capitalisation, % GDP	0.18	0.30	0.36	0.33	0.47	0.22	1.29

Note: Most indicators are for 2001. Foreign bank penetration in the advanced capitalist economies is as of 1995; Poland's and Ukraine's data on foreign banks are for 2003.
Source: Author's calculations on the basis of Beck, Demirgüç-Kunt and Levine (1999); Demirgüç-Kunt and Levine (1999); Baygan and Freudenberg (2000); Mazullo (2001); Baranovskyi (2003); Schröder (2003); Baranovskyi and Sidenko (2004); Investgazeta (2002, 2003); Miles, Feulner and O'Grady (2004); NBU (2005); OECD(2004a); Tyhypko (2004); USSC (2004a), Zaderei (2004).

Figure 3. - *Business environment in Poland and Ukraine in 2002, average score by dimension and country on a scale of 1 (minor obstacle) to 4 (major obstacle)*



Notes: (i) the responses to specific questions aiming to identify particular aspects of the business environment are aggregated into seven dimensions: finance, infrastructure, taxation, regulation, judiciary, crime and corruption. The finance measure combines two aspects with equal weights: the interest rate and ease of access to long-term financing in both 1999 and 2002; infrastructure combines a general question on infrastructure in 1999 and two questions with equal weights in 2002, one on electricity supply and the other on telecommunications services; taxation combines two aspects with equal weights: tax rates and tax administration both in 1999 and 2002; regulation combines three aspects with equal weights: customs and trade regulations, business licensing and labour regulations both in 1999 and 2002; judiciary and corruption are assessed in one question each in both the 1999 and 2002 survey; crime combines two aspects: street and organised crime in both 1999 and 2002; (ii) the calculation procedure: (a) calculation of grouped categories, e.g. finance, for each firm, (b) calculation of unweighted averages of seven dimensions for each country and (c) calculation of averages for each dimension across countries.
Source: Author's calculation on the basis of Fries, Lysenko, and Polanec (2003); World Bank (2004a).

Corporate governance and business environment

The observed underdevelopment of the Polish and Ukrainian financial markets has been also accompanied by mediocre corporate governance standards and relatively poor business environment provision. In 1999 and in 2002, the World Bank and the EBRD conducted two large-scale qualitative surveys of business environment and enterprise performance (BEEPS 1999 and 2002 respectively) in 26 post-communist countries. The BEEPS 2002 survey covered 6,100 firms, of which 500 in Poland and 463 in Ukraine (see World Bank 2004a).

Figure 3 summarises the qualitative assessment of the business environment by Polish and Ukrainian entrepreneurs, firm managers, and other representatives of business community. The BEEPS 2002 results generally correspond to my evaluation of the role of the state in both countries, the degree of state involvement in the economy, and the level of the financial sector's development, made in the previous sections. Figure 3 indicates that Ukraine has been characterised by a relatively better business environment than Poland. It shows that according to the opinion of the local business people, taxation, finance, and corruption were amongst the three most significant obstacles to doing business in Ukraine. On the scale from 1 (minor obstacle) to 4 (major obstacle), the average score of the Ukrainian business environment was 2.22. Poland's business environment was graded with the score of 2.45 points. Analogous to the business situation in Ukraine, taxation, finance, and corruption were reported as the greatest troubles for conducting economic activities in Poland. Comparing with other post-communist countries, Poland's business environment was ranked the second worst (25th position out of 26th countries), between Moldova (24th) and Albania (26th). Ukraine's position was seventh worst (20th), between Bulgaria (19th) and Bosnia and Herzegovina (21st) (author's calculation on the basis of Fries, Lysenko, and Polanec 2003).

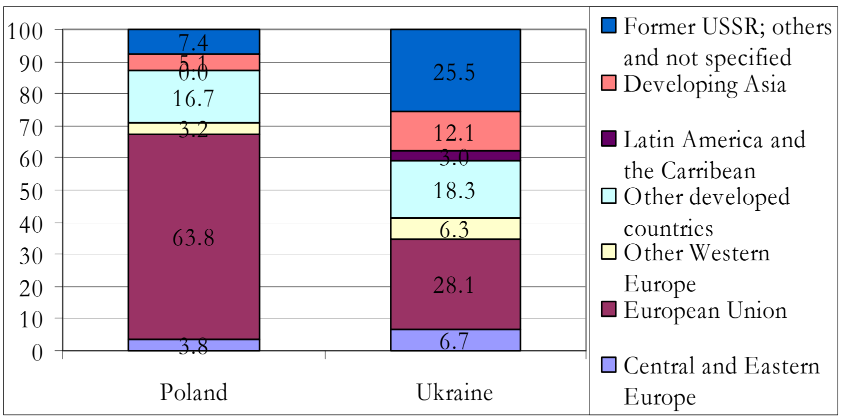
Given similarly mediocre business environment situations in Poland and Ukraine, the most striking difference between the two financial systems and markets for corporate governance has been in the types of the most active business players. In Ukraine, it is private domestic capital that has been (a) providing most of the enterprise finance capital through firm's retained earnings and investment, and (b) taking over local enterprises via the privatisation process. By contrast, in Poland, it is foreign capital along with the Polish state that has become the most active player on the local market for corporate control.

Table 7. - *Cross-border mergers and acquisitions and foreign direct investment, 1988-1999*

	KOR	GBR	PRT	GER	DNK	POL	UKR
	1988-1999						
M&A cross border sales, by economy of seller, total value per capita, US$	346	7678	397	1496	2295	265	4
	1992-1999						
FDI inflows, as % of GDP, average	0.75	2.65	1.62	0.63	2.29	2.93	0.73

Source: Author's calculations on the basis of Easterly and Sewadeh (2001); UNCTAD (2000); USSC (2003).

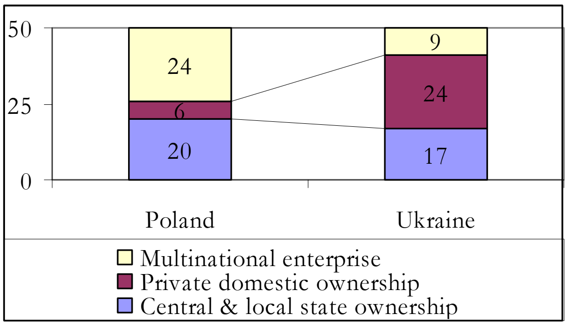
Figure 4. - *Foreign direct investment by geographical origin, Ukraine and Poland, 1999*



Source: Author's calculations on the basis of UNCTAD (2000); USSC (2003).

Table 7 shows major indicators of cross-border corporate sales, mergers and acquisitions for South Korea, Great Britain, Portugal, Germany, Denmark, Poland and Ukraine. It indicates that as regards mergers and acquisitions, foreign companies have been as active in Poland as in several established capitalist economies. Furthermore, the importance of foreign direct investment in the country since the mid-1990s has become even higher than in the United Kingdom. The role of direct foreign investment in Ukraine appears to be moderate, on the level of continental Europe and East Asia (cf. Korea and Germany). Yet, notwithstanding Ukraine's much more open and formally liberal foreign trade and investment regulations, the size of FDI attracted to the country has been disproportionately low, compared with Poland. The larger than expected share of foreign direct investment and cross-border corporate sales in the Polish economy is due, to a great extent, to the initial speculative wave of foreign capital markets' interest in a new member of the EU single market and to initial one-off privatisation deals associated with it. The geographical origin of FDI in-flows appears to confirm such suggestions. Figure 4 shows that the great bulk of direct foreign investment into Poland (almost 70 per cent) has come from the European Union member states, Switzerland and Norway. By contrast, the largest share of FDI (32 per cent) invested in Ukraine comes from firms from post-communist economies (Russia, the former Soviet Union, and Central and Eastern Europe). Generally, the share of advanced industrialised countries in total overseas investments into Ukraine has amounted to one half, compared with 84 per cent of Western FDI in Poland.

Figure 5. - *Fifty largest companies by ownership structure, Poland and Ukraine, 2003*



Source: Author's calculations on the basis of *Rzeczpospolita* (2004); *Investgazeta* (2004); internal corporate information.

The significant role played by the state in Poland is evident from the property structure of the country's largest companies. According to Figure 5, in 2003, 40 per cent of the fifty largest companies in Poland were still state-owned, compared with only a third of Ukraine's top fifty companies controlled by the state. Figure 5 also indicates that, notwithstanding Poland's rather protectionist outward-oriented policies, the domestic market for corporate control has been characterised by an overwhelming presence of multinational corporations. By contrast, the degree of multinational presence in Ukraine has been low; the national economy appears to be dominated by private domestic capital.

To conclude, the financial system (including the finance sector and the market for corporate control and governance) has been the most peculiar institutional arena of post-communist capitalism. Poland's financial and corporate domain has been characterised by a moderate level of ownership concentration, and the limited development of institutional and venture-capital investment. The finance sector is bank-based and the state plays a very important role in the control and finance of industrial companies. Another distinctive characteristic of the Polish finance and corporate governance markets is that they have been dominated by many West European banks and Western Europe-based multinational corporations. In turn, Ukraine's financial-intermediation sector has been characterised by the high degree of ownership concentration, the great role of private domestic capital, the low degree of sophistication of the financial system, and the absence of institutional investors and venture capital. The role of the state and commercial banks in the financial system is relatively important. Banking is concentrated in a few domestic deposit money banks. Nonetheless, on a more general level, all the three types of finance markets (banks, stock markets, and institutional investors) have been far too weak and underdeveloped in the two post-communist countries to allow us to associated them fully with a particular model of modern capitalism and identify their future directions. The two financial systems can only be definitely associated with those of the middle-income group of developing countries.

Social Protection and the Welfare System

Most comparative political economists tend to agree that social protection does not always mean 'the state against the market'. On the contrary, the welfare system is believed to be rescuing the market from itself by preventing market failures. As argued by Estevez-Abe, Iversen and Soskice (2001), social protection complements and aids the market by helping economic actors overcome market failures in skill formation. They have argued that the shape of social protection has bearings on national competitive advantage in international markets and the choice of product market strategies. Since the availability of specific skills requires appropriate forms and levels of social protection, institutional differences that safeguard returns on specific skills explain why workers and employers invest more in specific skills. On the other hand, the absence of such institutions in countries such as the USA, Canada or Australia, gives workers a strong incentive to invest in transferable, generally-applicable skills. In such an environment, it then also seems to be more productive for firms to pursue product market strategies that use these transferable skills intensely.

As to the individual features of social protection in different ideal types of advanced capitalist societies identified in the literature, weak social protection and a low involvement of the state are the major features of market-based economies. Although there exist important differences between the USA and Great Britain, the welfare system's emphasis in the Anglo-Saxon model is generally presumed to be on poverty relief ('social safety net'), means-tested benefits, and a private-funded pension system. The social-democratic economies are characterised by an extremely high degree of social protection, the prominent role of the state, the great importance of the welfare state in public policy and society. The Asian capitalism model is characterised by a very low level of social protection and a small share of public expenditures in general welfare. Social expenditures are directed towards poverty alleviation, whilst the overall share of welfare expenditures in GDP is minimal. The Continental European economies are characterised by a high degree of social protection, employment-based social benefits, government involvement, the important role of the welfare sector in society, contribution-financed social insurance, and pay-as-you-go pension systems. The Mediterranean model is characterised by a moderate level of social protection and the heavy involvement of the state; the expenditure structure is oriented towards poverty alleviation and pensions. Some South European countries have particularly generous family- and elderly-oriented welfare systems (Amable 2003: Chapter 3.4).

Different typologies of welfare systems have been developed. According to prevailing opinion, the USA, Australia, Ireland, Canada, Japan and Korea (i.e. most of the countries of the Anglo-Saxon and Asian capitalism models, except for the UK) belong to the liberal, 'residual-welfare' model (or the weak, non-welfare, 'zero-level' model of social protection). Great Britain, the Netherlands, Spain and Portugal are considered 'minimal-universalist' welfare systems. The welfare systems of the other two remaining Mediterranean European countries are regarded as much more generous 'subsidiarist' or 'Latin particularist-clientelist' models.[1] The Nordic countries are said to belong to the 'maximal-universalist', social-democratic model of the integral welfare state. France, Germany, Austria, and Belgium are characterised as Continental conservative-corporatist welfare systems (for this comparison of major typologies of welfare systems found in the literature, see Amable 2003: 154-60). I analyse the welfare system of the two East European capitalisms by comparing the level and character of public social expenditure in Poland and Ukraine with the variety of advanced capitalist countries.

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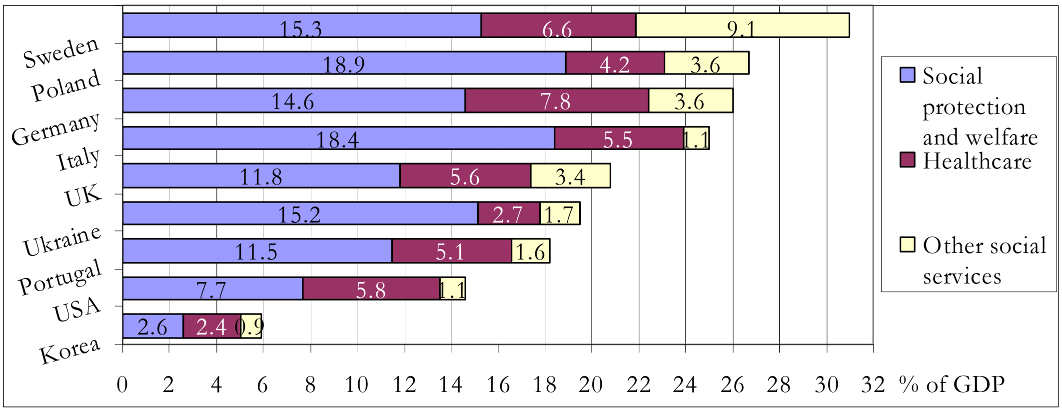
[1] 'Subsidiarity' is a major concept of the Roman Catholic social theory that rests upon an understanding of society as an organism characterised by a hierarchy of mutually supportive organs. In this view, nothing should be delegated to higher organs that can be accomplished by individuals or lesser or subordinate bodies. Thus, according to the European Roman Catholic welfare philosophy, informal care should, whenever possible, take precedence over state intervention in social welfare service (see Cross and Livingstone 1997). However, neither 'Latin' nor 'subsidiarist' adjectives can be used purely with regard to the Eastern Orthodox Greece and its social protection sector.

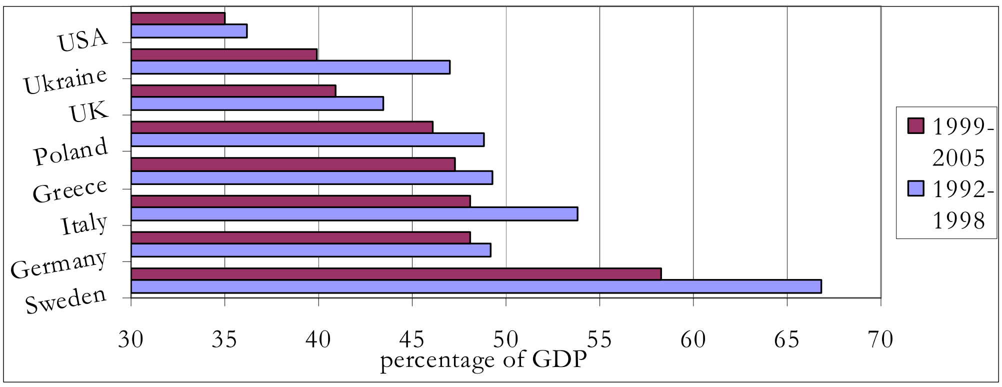
Figure 6. - *Public social spending by major allocations, as percentage of GDP, Poland and Ukraine, international comparison, average shares in 1998-2002*



Source: Author's calculations on the basis of USSC (2000, 2002, 2003); IMF (2003); PCSO (2000, 2001, 2002, 2003); OECD (2004a, 2004c, 2004d).

Figure 6 presents the data broken up by three broad categories of public social expenditure such as: (a) social protection and welfare that covers public expenditure on pensions and old-age cash benefits, disability, occupational injury and unemployment benefits, active labour market programmes, and income support to the working age population; (b) health care; (c) housing benefits, culture, arts, sport and physical exercise activities, and other social services including religious programmes. Figure 6 indicates that with the average share of public social spending in Ukraine's GDP of 19.5 per cent, putting in between the UK and Portugal, the country's welfare system clearly belongs to the minimalist-universal system of social protection. The relative level of social protection and welfare support in Ukraine (15.2 per cent of GDP alone) is as high as in Scandinavian and Continental European economies (cf. Germany and Sweden), but public expenditure on health and other social services is much lower. By contrast, Poland's welfare system, with the level of public social expenditure amounting to 26.7 per cent of GDP, is amongst the most generous social protection systems in Europe. Moreover, the level of public spending in Poland on social protection and welfare support alone (18.9 per cent of GDP) is by far the highest among all the advanced capitalist economies. It is this feature that indicates a strong similarity of the Polish social protection system with Mediterranean 'Latin paternalism', as exemplified by Italy. Yet, the level of social protection provided by the Polish welfare state outstrips even that of its particularist-clientilist counterparts.

Figure 7. - *General government sector expenditure, as share of GDP, Poland and Ukraine, international comparison, average shares per period, 1992-1998 and 1999-2005*



Source: Author's calculations on the basis of USSC (2000, 2002, 2003); IMF (2003); PCSO (2000, 2001, 2002, 2003); OECD (2004a, 2004d).

My classification of the two post-communist welfare systems is also supported by the data on the changing role of the state in their economies. Figure 7 summarises the average shares of general government sector expenditures to GDP in Poland, Ukraine, and a number of representative capitalist economies. Advanced public budgeting procedures allow us to examine the planned level of overall public spending until the end of 2005. Figure 7 indicates the high degree of the Polish state's involvement in the economy throughout the entire period of the post-communist transformation. On average, the size of government in Poland has been large and comparable currently with the South European model of heavily regulated capitalism (cf. Greece and Italy). By contrast, under post-communism, Ukraine has been experiencing a dramatic change in the role of the state and the government withdrawal from the economy to the levels far below than those of the UK – one of the closest existing examples of the free market economy and the limited welfare state.

The Education Sector

The education sector is considered the fifth institutional foundation on which a nation's comparative advantage can be built. It has been emphasised elsewhere that in the sphere of education and vocational training, firms face the problem of securing a labour force with suitable abilities and competence, while employers face the problem of determining how much effort and resources to invest in which skills. As the theory of institutional complementarity implies, the outcomes of this coordination problem impact not only on the fortunes of individual companies and workers, but also on the skill levels and competitiveness of the entire economy (Hall and Soskice 2001b: 7). The educational system in the market-based model is usually characterised by low public expenditures, a highly competitive higher-education system, non-homogenised secondary education, weak vocational training, emphasis on general and easily-transferable skills, and life-long professional training. In social-democratic economies, the education sector is characterised by a high level of public expenditures, high enrolment rates, emphasis on the quality of primary and secondary education, importance of vocational training, emphasis on specific skills, and the prominent role of retraining and life-long learning. Asian capitalism is characterised by a low level of public expenditure, high enrolment rates, emphasis on the quality of secondary education, company-based training, importance of scientific and technical education, emphasis on specific skills, and weak life-long learning outside the corporation. The education sector in the Continental European model is characterised by a high level of public expenditure, high enrolment rates in secondary education, emphasis on secondary-education homogeneity, developed vocational training, and emphasis on specific skills. In the Mediterranean model, the educations sector is characterised by low public expenditures, low enrolment rates in tertiary education, weak higher-education system, weak vocational training, no life-long learning, and the emphasis on general skills (Amable 2003: Chapter 3.4)

Historically, both the Polish and Ukrainian educational systems were formed under the heavy influence of the Continental European models of France and Germany respectively (for a review of different European education and training systems, see Aventur, Campo and Möbus 1999).[1] Therefore, amongst several common attributes of the two sectors are high levels of curricula standardisation and mainly school-based vocational training and professional education. The major difference between the Soviet Ukrainian educational system and its central European counterparts, however, was in the degree of differentiation between 'general' and 'vocational' programmes, which was low in the former and high in the latter. Under state socialism, the education sector in Ukraine was characterised by moderate individual initiative and average employer initiative in life-long learning, dominant institutionalised role of employers in vocational training, and average employer's role in continuing training. In turn, the education sector in People's Poland was characterised by limited individual initiative and minor employer initiative in life-long training, a slightly formalised role of employers in initial vocational training, and a weak employer's role in continuing training. Under post-communism, some of the inherited institutional features of the Polish and Ukrainian systems of training and education have been retained, whereas others have experienced major changes. To evaluate the extent of this transformation and to assess its systemic direction, Table 8 provides a synopsis of several contemporary educational and science indicators for Poland and Ukraine, as well as for South Korea, the USA, Greece, Germany, and Sweden. Table 8 indicates that Poland's educational system has been characterised under post-communism by the emphasis on publicly-

[1] The education sector in the Mediterranean Europe was historically formed under the French system's influence as well.

funded educational institutions and the very high importance of secondary education. In 2002, less than a third of all students in Poland studied at semi-private universities and other non-state institutions of tertiary education (see PCSO 2003: 256). Yet, generally, tertiary education appears to be of moderately low importance in the country as the low level of expenditure on tertiary education shows.

Table 8. - *Major indicators of the education sector, 1999-2002*

		KOR	USA	GRE	GER	SWE	POL	UKR
Primary gross enrolment ratio, %		102*	98	97	100	110*	100	97
Secondary enrolment ration, %		91	93	96	100	146*	103*	97
Tertiary enrolment ration, %		82	81	61	48	76	58	58
Of which, percentage share:								
standard university degree		58	94	...	85	91	97	73
technical and professional degree		41	4	…	15	4	1	26
post-graduate degree / doctorate		1	2	…	>1	6	1	1
Training participation, as % of workforce		…	41.4	15	25.4	60.2	16.0	10.3
Total expenditure on education, as % of GDP, (private spending)		6.0 (2.5)	4 (2.2)	3.9 (0.2)	5.3 (1.0)	6.8 (0.3)	5.6 (0.2)	6.0 (0.7)
Of which, total expenditure on tertiary education, (private)		2.1 (1.7)	2.7 (1.8)	0.9 (-)	1.0 (0.2)	1.8 (0.2)	0.9 (0.1)	1.3 (0.4)
Gross domestic R&D expenditure, % of GDP		2.96	2.80	0.68	2.50	4.61	0.70	1.20
R&D expenditure by source of funds	Industry	72.5	66.2	24.2	66.0	71.9	30.8	41.4
	Government	25.0	28.7	48.7	31.5	21.0	64.8	28.1
	Other national sources	2.1	5.1	2.5	0.4	3.8	2.0	4.4
	Abroad	0.5	0.0	24.7	2.1	3.4	2.4	26.2
Researchers per million people		2880	4099	1400	3153	5186	1473	2118
Scientific publications per million inhabitants		141	594	212	453	939	117	367

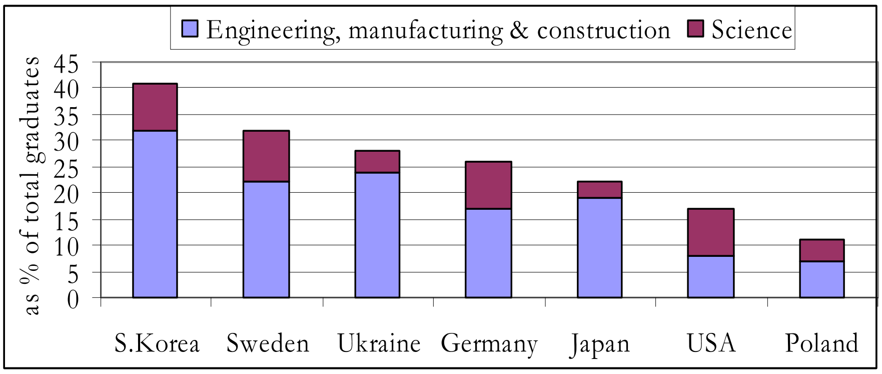
Note: The net enrolment ratio is the ratio of enrolled children of the official age for the education level indicated to the total population of that age. Net enrolment ratios exceeding 100% reflect discrepancies between these two data sets. In addition, a further discrepancy may arise from the fact that school pupils repeating the same grade are included in the same data set with younger enrolled children of the official age for the same education level.
Source: Author's calculations on the basis of OECD (2002b, 2004b); UNDP (2003, 2004); USSC (2003, 2004a, 2004b); UNAS (2004); UNESCO (2004a, 2004b).

Poland's education sector has been further characterised by the low importance of research and development, relatively weak scientific achievements, and by the high importance of the state in funding R&D activities. Life-long learning and continuing professional training play no major role within the education system of the country. Generally, the majority of indicators compiled in Table 8 indicate a closer relation of Poland's education sector towards the Mediterranean model, as exemplified by Greece. This resemblance has been recently identified by other researchers as well (see Schoen 2003).

In turn, the Ukrainian educational system has been characterised by relatively higher expenditure on education, the great importance of vocational training, the emphasis on tertiary education, a potentially significant role of R&D activities, considerable scientific achievements, the limited importance of the state as a source of research and development funds, the essential role of industry-financed R&D, and the high importance of foreign R&D investment. The amount of private spending on education in Ukraine has been relatively small, whilst the role of the state and of public spending remains to be vital.

There appears to exist some general resemblance of the Ukrainian education sector to the Continental European model of public education, as indicated, among other similarities, by the great role of technical and professional (polytechnic) tertiary-level education in Ukraine. The very high share of Ukrainians studying for a technical or professional tertiary degree might explain the country's apparently low continuing training participation rate. Figure 8 indicates a very high proportion of science and technology graduates and doctorates produced by the Ukrainian education sector in contrast to a low proportion of industry-related graduates produced by the Polish education sector. Thus, under post-communism, both Poland and Ukraine have retained some of the inherited institutional features and maintained primarily public-funded education sectors. Similar to the other institutional domains, there have been a number of changes within the two educational systems as well. Generally, the education sector in Poland has been weak and oriented towards elementary non-tertiary public education and basic general skills. On the other hand, in Ukraine, the education sector has been characterised by a relatively stronger higher-education system, great importance of professional, technical and vocational education and training – all part of the Soviet educational heritage. Certain features of the Polish education sector appear to be close to the Mediterranean model of basic public education; whereas some of Ukraine's educational characteristics approximate the Continental European public education sector. Nevertheless, a large number of the educational characteristics discussed above remain to be specific to each of the two East European countries and their historical legacies.

Figure 8. *Science, technology and engineering graduates, Poland and Ukraine, international comparison, as percentage of all tertiary education graduates and doctorates, 2001-2002*



Source: Author's calculations on the basis of UNESCO (2004).

ALTERNATIVE CAPITALISMS IN TRANSITION

Having examined in detail the five major institutional domains of the Poland and Ukrainian political economies, we may now turn to identifying the core attributes of post-communist capitalism. What kind of capitalism has been emerging in post-communist Europe? How close is it to the well-established models of modern capitalism? The available literature on post-communist capitalism and economic transition contains a number of weaknesses and ambiguities, some of which have been discussed previously. The authors working within the orthodox neo-liberal transition paradigm stress that a large number of the transition economies have approached the free-market standard. By contrast, the overwhelming majority of scholars working within alternative conceptual frameworks maintain that the social formation which emerges in the post-communist world can hardly be described as 'capitalism' under any circumstances (mostly) because of the absence of a hegemonic capitalist class (i.e. a propertied grand bourgeoisie) and the resultant lack of social cohesion and institutional coherence (on the 'chaotic' nature of the post-communist social transformation, see Lane 2000; on the perverse character of post-communist capitalism, see Eyal, Szelényi and Townsley 1997; Burawoy 2001; King 2001, 2002; Poznański 2001).[1]

Two Types of Post-Communist Capitalism

This paper takes a different line of argument, however. It is contended that a general picture can be developed with regard to the kind of capitalism which has been emerging in Eastern Europe. I argue that a specific 'post-communist' type of capitalism has arisen. This capitalism in transition appears in several parallel non-converging forms. As a generic term, post-communist capitalism is characterised by the possession of a prevailing – yet incomplete – set of complementary institutions that provide a broadly coherent and cohesive arrangement of information and co-ordination

[1] See also summary proceedings of 'What type of capitalism in the post-communist economies?', 13th Research Seminar on Managing the Economic Transition, Jean Monnet Centre for Excellence, University of Cambridge, England, 12th March 2004. Some of the papers are available on the MET website: http://www.business.mmu.ac.uk/research/met/programmes_13.htm

mechanisms for post-communist economic agents. Although there have been a number of observed approximations to some of the well-established ideal-types of modern capitalism, the East European socio-economic formation on the whole is still an unfinished enterprise, which moves into uncharted waters of systemic transformation.

On the basis of our discussion in this paper, Table 10 below summarises the core features of the two forms of post-communist capitalism. Post-communist capitalism in Poland is characterised by the great importance of the state and high direct government involvement in the economy, very heavy regulation and moderately high protection of product markets, numerous administrative burdens for large corporations, the prominence of small firms and sole traders, and by the large public sector. In the sphere of labour markets and industrial relations, the Polish capitalism is characterised by a mild degree of employment protection, little co-ordination and high decentralisation for wage bargaining, increasing wage flexibility, and weak trade-unions. The financial sector in Poland is bank-based. However, banks, financial intermediaries, and capital markets in the country are underdeveloped and weak. The finance sector's sophistication is very low, whereas banking concentration is very limited and most of Poland's banks are owned and controlled by large multinational banking corporations from the advanced European Union member-states. Private domestic capital is underdeveloped, whilst the domestic market for corporate governance and control is almost entirely dominated by foreign multinational corporations and government-controlled actors. The welfare system in Poland is characterised by a high level of social protection; generous public social expenditures are oriented towards poverty alleviation, pensions, and family-oriented benefits, whereas health care and additional social services are of less importance. Poland's education sector is public and weak, with the emphasis on basic general skills and pre-tertiary education.

Table 10.- *Major features of capitalism in the two post-communist countries*

Institutional arena	Poland	Ukraine
Product-market competition	Most heavily regulated product markets; administrative burdens for corporations; high role of direct state involvement; importance of small firms	Mildly regulated product markets; moderate state involvement; importance of large corporations
Labour markets	Mild employment protection; decentralised labour markets; uncoordinated wage-bargaining; weak trade-unions	Moderate employment protection; co-ordinated labour markets; centralised wage-bargaining; relatively strong trade-unions
Financial sector	Underdeveloped; currently bank-based; active role of foreign multinationals and the state in finance market and corporate governance	Underdeveloped; currently bank-based; active domestic private involvement in finance market and corporate governance structures
Social protection	'Latin' welfare state (particularist-clientilist subsidiarism); high level of social protection and public spending	Limited (minimal-universalist) welfare system, moderate degree of social protection, low level of public spending on health care and additional social services
Education	Weak public education system; importance of secondary education and basic vocational training	Public education system; importance of professional and special technical education and training

Note: Boldfaced typing indicates institutional. complementarity

The Ukrainian variant of post-communist capitalism is characterised by a moderate level of the public authorities' involvement in the economy, relatively mild non-price 'co-ordination', and low (formal) protection against foreign firms and investment in product markets.[1] As regards the wage-labour nexus, the core features of post-communist capitalism in this country include moderate employment protection, highly centralised and co-ordinated wage bargaining, moderately strong unions, declining wage flexibility and increasingly active labour market policies. The sector of financial intermediation in Ukraine is underdeveloped and weak. Both the finance and corporate governance control markets in the country are characterised by a very high level of ownership concentration, limited

[1] On the informal level, there have been a number of allegations about high protectionism against foreign companies. See, for example, Valentin and Couronne (2004) and *The Economist* (2004).

development of institutional and venture capital investment, and the great role of domestic private capital in firms' finance and management. The welfare system exists in Ukraine in a universal but extremely limited form. Amongst its main features are a moderate level of social protection, very low public spending on health, and a low level of government involvement in providing additional social services. The Ukrainian education sector is characterised by a relatively high level of public expenditure, high enrolment rates in post-secondary and tertiary education, developed vocational, professional, and technical education and training, the high importance of retraining and life-long learning, and an overall emphasis on industry-specific skills and knowledge.

Table 10 demonstrates that three to four out of five major institutional domains in each of the two forms of post-communist capitalism are distinguished by intra-systemic congruousness and coherence. In Poland, (i) heavily regulated product markets dominated by small firms, (ii) the basic public education sector, (iii) the paternalist social protection system, and (iv) the importance of banks, foreign multinationals and the state in the financial system can be described – according to the theory of institutional complementarity – as compatible institutional domains. I examine the complementary institutional dynamics correspondingly in accordance with the 'diversity of capitalism' framework (see Amable 2003: Tables 3.3a, 5.2). Thus, first, heavily regulated product markets and a large public sector entail low competitive pressure that allows employment stability. Under low competitive market pressure, stable finance-industry relations can be established. The structure of product-markets dominated by small firms does not require a highly skilled workforce. Second, the skill level of the workforce prevents the need to engage in risky high-tech activities. The weak education system does not allow a large, highly skilled workforce. In turn, low personal investments in specific skills lower the demand for social protection. Third, high welfare expenditures imply high tax distortions on the domestic market. On the other hand, high levels of social protection decrease the demand for individual risk diversification. Fourth, underdeveloped financial markets and stable bank-industry relations slow down structural change and enable employment stability. Weak individual risk-diversification possibility implies a higher level of social protection. The deep involvement of the state in the financial-intermediation sector and corporate governance allows strong protection of stakeholders and enables long-term business strategies. Foreign multinationals bring (potentially massive) external capital reserves into the domestic financial-intermediation sector (for a comprehensive discussion on institutional complementarities, see Amable 2003: Chapter 3).

In Ukraine, (i) competitive to mildly regulated product markets dominated by large corporations, (ii) highly co-ordinated and centralised industrial relations, (iii) a 'polytechnic' public education system, (iv) a moderate degree of social protection; and (v) the prominence of domestic private capital in the markets for finance and corporate governance and control are institutionally complementary domains. First, moderate internal competitive pressure allows relatively slow structural change and enables a relatively high degree of employment protection. Yet, external market pressure demands substantial productivity gains. Moderate competitive pressure allows the development of a stable finance-industry relationship. The pursuit of productivity gains results in the adoption of labour-shedding strategies which are politically sustainable only with social protection. Moderate degrees of both price- and quality-based competition demand a workforce with a high level of secondary and post-secondary education, whereas slow structural change favours the acquisition of specialised skills. Second, regulated labour markets and employment protection prevent fast structural change. Employment protection limits the need for a strict short-term-profit constraint. Employment protection, both legal and institutional, lowers the demand for a high degree of social protection. Employment protection is an incentive to invest in specific skills, whilst high levels of labour market centralisation and co-ordination favour the designation of useful industry-specific skills. Third, labour force with specialised skills enables stable industrial strategies to be followed. A strong polytechnic public education system allows for (offensive) flexibility. It also demands the protection of individual investments in industry-specific skills, i.e. employment protection and a moderate degree of social protection. Fourth, a moderate degree of social protection implies mild tax levels and distortions on the domestic market. Social protection enables specialised-skills acquisition. Fifth, a domestic industry-controlled sector of financial intermediation and corporate governance prevents short-term constraints and enables long-term business strategies to be followed. The absence of short-term-profit constraints allows employment stability (within large firms). Underdeveloped financial markets and stable bank-industry relations slow down structural change. Yet, weak individual risk-diversification implies a higher level of social protection.

This paper's detailed examination of post-communist capitalism in Poland and Ukraine also shows that each of the two types is still in its formative stage, characterised (at least on a theoretical level) by a number of systemic incompatibilities. Although both of the two domestic finance sectors are currently bank-based, which is fairly complementary with other institutional features of the two capitalisms in transition, the financial systems in Poland and Ukraine have remained greatly immature and weak in comparison with any of the existing models of modern capitalism. Furthermore, in the case of Poland, the wage-labour nexus that is based on labour market flexibility has not been complementary with the overall logic of the national type of post-communist capitalism. Decentralised labour markets are usually those that are characterised by the absence of employment protection. Moreover, they operate in the market-based version of capitalism. Labour market flexibility favours firms' adjustment to strong competitive pressure and makes fast structural change less costly. Decentralised *and* deregulated labour markets allow quick adjustment of the labour force and maintenance of short-term profits. Weak employment protection and important structural change are incentives to invest in general skills. Fluid labour markets diminish risks and lower the demand for social protection (see Amable 2003: Chapter 3). By contrast, our discussion has shown that, besides decentralisation, Poland's labour market institutions are also characterised by moderate employment protection, thus, potentially signalling a major in-built systemic incompatibility as regards the wage-labour nexus.

In turn, Ukraine's limited welfare system is (at least theoretically) incompatible with the overall institutional logic of the regulated capitalism model that the country appears to be evolving into. A minimal public-funded social protection system does not protect against unemployment and, thus, fluid labour markets are necessary (see Amable 2003: Chapter 3). The existence of a liberal minimalist welfare state calls for market-based means of risk diversification through private insurance; private pension funds should provide an institutionalised voice for shareholders in a system of corporate governance. Low protection for specific-skills investment provides incentives for individuals to acquire general skills in order to move from job to job and make retraining easier. All these institutional effects that typically emanate from a minimal social protection system can contravene the inner workings of a regulated market economy.

A Non-Uniform Direction of the Systemic Change

If there exists post-communism capitalism, what systemic direction has it taken and can it approximate any established type of modern capitalism? On the basis of common academic knowledge about the inherited institutional characteristics of state socialism (see, e.g. Lavigne 1974; Nove 1987; Campbell 1991; Bornstein 1994; Kornai 1992; Lane 1996; Brabant 1998) and taking into account the comprehensive analysis of different models of capitalism undertaken in the present paper, I have put the institutional systemic changes of the two countries on a wider comparative scale. Figure 9 below presents the outcome of my speculation. It describes the movement from state socialism to capitalism accomplished so far by Poland and Ukraine across the five major institutional domains, including product-market competition, the wage-labour nexus and labour-market institutions, the financial-intermediation sector and corporate governance, social protection, and the education sector. The positioning of inherent institutional features of different models of modern capitalism (the Mediterranean, Asian, social-democratic, Continental European, and market-based) across this spectrum of institutional change depends only on the ideal-types' apparent proximity to state socialism in the spheres of product markets, labour markets, finance markets, and social protection, as analysed and described in Amable (2003: Chapter 5).

Thus, Figure 9 does not imply that various types of capitalism were all preceded by state socialism. The positioning of the capitalist ideal-types in the education sector depends upon their proximity to the Soviet and communist Polish education systems inherited by Ukraine and Poland respectively. I have added an additional 'undeveloped' category to describe the two post-communist financial systems Figure 9 confirms the overall dissimilarity between the institutional designs of the two post-communist capitalisms. It indicates that according to several institutional characteristics, the post-communist transformation of Ukraine may be seen as a gradual movement from the Soviet system of state socialism towards what can be cautiously and roughly described as the Continental European model of capitalism, whereas the systemic change in Poland may be considered a movement towards the Mediterranean model of capitalism. Nevertheless, given the uncompleted nature of the two national transformations, any such categorisation can be only tentative. Figure 9 shows also that the degree of transformation experienced by the two countries has been profound in some institutional arenas, but moderate in others. The most definitive conclusion one can draw on the basis of this discussion is that, even after a decade of transformation, post-communist capitalism – in each of its two versions – does not bear a strong resemblance to any of the existing ideal-types of modern capitalism.

Figure 9.- *The intra-systemic spectrum of the post-communist transformation changes in Poland and Ukraine*

Previous model	Post-communist alternatives by institutional domain: From less → to more radical reform change
	Product markets: regulated v. deregulated Asian→Mediterranean→ Soc-dem→ContinentEurope→Market-based
S T A T E	Labour markets: protected / coordinated v. flexible Mediterranean→ ContinentEurope→ Asian→Soc-dem→ Market-based
→	Finance: bank-based v. stock market-based Backward→Mediterranean→ ContinentEurope→ Asian→ Soc-dem→Market-based
S O C I	Welfare: universal v. restricted / none Integral welfare state→Continental corporatism→Latin subsidiarism→Minimal universalism→Zero-level of social protection
A L I S M	Education: public with specific skills v. private with general skills ContinentEurope→ Soc-dem→Mediterranean→Asian→Market-based Mediterranean→Asian→Market-based →ContinentEurope→Soc-dem

Note: Ukrainian capitalism's attributes are yellow-coloured; Polish capitalism's attributes are green-coloured.

CONCLUSION: A DISTINCTIVELY EAST EUROPEAN MODEL?

Following the path-dependent tradition, this paper has viewed 'post-communist' or 'transition' capitalism as a generic term, that is, not as one socio-economic formation in transit towards one pure competitive market-based capitalism, but as capitalism in the making after the collapse of state socialism. Broadly following the theory of institutional complementarity and hierarchy, I have argued that each of the two post-communist capitalisms has generated a prevailing set of partially complementary and mutually supportive institutions. Yet, both of the two still incomplete variants of post-communist capitalism possess several institutional characteristics that appear to be incongruous with their overall institutional designs.

I have also established that none of the two East European capitalisms under close scrutiny resembles any of the five major models of capitalism, which are said to exist in the 'First World' of industrially advanced countries, or in what currently has been more technically described as 'high-income OECD'. It has been contended that the two forms of post-communist capitalism do not closely resemble each other either. The newly emerged forms of social and economic organisation in Poland and Ukraine described in this paper are dissimilar and cannot constitute one uniquely 'East European' or 'post-communist' version of capitalism. The existence of institutional non-complementarities and underdeveloped finance and capital markets can hardly qualify for a distinctively East European or post-communist status. Those are the inherent problems of any 'emerging' capitalism in the world. It can be contended that the two styles of post-communist capitalism are parallel (non-converging) and indeterminate outcomes of the political-economic struggle between various socio-political groups over the course of transformation and the institutional design of their respective societies. In this, they come close not only to the 'emerging markets' of the Third World, but to the developed world of modern capitalism as well.

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